

# HSBC Alternatives Responsible Investment Policy



**HSBC**

Opening up a world of opportunity

## Introduction

HSBC Alternatives, as part of HSBC Asset Management, believe that our deep understanding of responsible investment and sustainability enriches our investment decision-making. This, in turn, contributes to sustainable long-term investment performance. As such, we seek to identify and assess material environmental, social and governance (ESG) issues as part of our investment process and aim to ensure that these issues are properly managed over the lifetime of our investments. HSBC Alternatives believes that by doing this, we can help to create more successful and sustainable businesses over the long-term and generate enhanced risk-adjusted returns for our clients.

## Purpose and Ambition

The defined purpose of HSBC Asset Management is to help our stakeholders prosper – our clients, shareholders, employees, the societies in which we operate, and our planet. We aim to deliver value by focussing on clients' investment needs, delivering on our philosophy of investment excellence, and supporting the transition to a sustainable future.

Over the last twenty years HSBC Asset Management has developed its approach to Responsible Investment, launching its first Socially Responsible Investment fund in 2001 and becoming an early signatory of the UN Principles of Responsible Investment (UNPRI) in 2006.

HSBC Alternatives has experienced ever-growing client and regulatory interest in how ESG issues can create and protect long term value for investors. We believe that a deep consideration of ESG factors, specific to the nuances of each alternative asset class, is integral to sound investment decisions in order to preserve and deliver long-term value to our clients. We support and recognise the contribution we can make to the United Nation's Sustainable Development Goals (SDGs), UN Global Compact and the global transition to a low-carbon economy as outlined in the Paris Climate Accords.

Our ambition is to be a leader in responsible investment for alternative asset classes, driving the transition to a more sustainable economy for the long-term benefit of our clients and society.

## Scope

This policy is applied across all alternative asset classes and geographical areas in which HSBC Alternatives operates. Each alternative investment strategy implements the ESG considerations relevant to it. These may depend on the nature of the strategy and the level of influence over the underlying assets. The implementation of the policy for each strategy is supported by internal protocols and guidance tailored for each asset class.

## Responsible Investment Policy Principles

This Responsible Investment policy for HSBC Alternatives is grounded in HSBC Asset Management's investment objective, which is to deliver sustainable, ambitious long-term returns for investors.

It outlines our approach to sustainability and ESG risks and opportunities. These risks and opportunities tend to:

- ◆ Manifest over a medium to long-term timeframe;
- ◆ Often emerge as material issues of public concern;
- ◆ May be qualitative in nature and not easily quantifiable in monetary terms;
- ◆ Reflect externalities not yet fully captured by market mechanisms;
- ◆ May be the focus of increasing regulation by governments.

HSBC Alternatives will apply HSBC Asset Management's policies and statements on Banned Weapons, Biodiversity, Climate Change and Human Rights alongside this Policy. As such, HSBC Alternatives will adhere to the responsible investment and sustainability principles set out below.

**Banned Weapons:** we will not knowingly make direct investments in businesses that have direct exposure to corporations considered to have proven involvement with weapons banned by international conventions, including (but not limited to): anti-personnel mines, biological weapons, blinding laser weapons, chemical weapons, cluster munitions and non-detectable fragments.

**Biodiversity:** we prioritise the following areas of exclusions where the risks to biodiversity may be highest:

- ◆ Mountaintop removal: companies using mountaintop removal techniques
- ◆ World Heritage Sites: companies endangering the status of UNESCO World Heritage Sites protected by the World Heritage Convention
- ◆ UN Global Compact breaches: relating to the Rio Declaration on Environment and development

**Climate Change:** we support the goals of the Paris Agreement and to play our part in reducing carbon emissions we are, where appropriate:

Integrating climate-related physical and transition risks to build resilient client solutions within HSBC Alternatives

Encouraging our investee companies to phase-out the use of unabated coal power by no later than 2030 in the OECD and EU, and no later than 2040 in the rest of the world – being cognisant of the requirements and principles of a just transition.

Encouraging the setting of net zero commitments and appropriate transition plans

Catalysing investment flows into investments which support the transition to a low carbon economy

**Human Rights and Social Issues - including diversity and inclusion:** we are committed to respecting human rights and support international principles and standards including the United Nations Universal Declaration of Human Rights, the International Labour Organisation's (ILO) labour standards and the United Nations Guiding Principles for Business and Human Rights.

We therefore encourage alternative investments that:

- ◆ Promote the fair treatment, equal opportunity and health and safety of employees
- ◆ Eliminate harmful or exploitative child labour or forced labour
- ◆ Protect the rights of local communities and indigenous peoples
- ◆ Identify, assess and respond to human rights risks in their supply chains
- ◆ Comply with HSBC Asset Management's financial crime and compliance requirements, including in relation to money laundering and corruption.

Where alternative asset classes have additional exclusions, these are outlined in relevant Product documentation

# Responsible Investment Approach and Implementation

HSBC Alternatives provide clients with investment solutions across a wide array of alternative investment asset classes and strategies. This includes, but is not limited to:

- ◆ Private Equity
- ◆ Private Debt
- ◆ Hedge Funds
- ◆ Venture Capital
- ◆ Infrastructure
- ◆ Real Estate

There are different strategies/solutions within each asset class, for instance, Real Estate investment exposure can be achieved via direct or indirect strategies; Private Equity via co-investments, secondary or primary investments; Hedge fund exposure can be achieved across different strategies such as macro, equity long-short etc.

Given the unique nature and nuances of each asset class (and sub-strategies within each asset class), the implementation of our Responsible Investment approach requires customisation. As such, the implementation of this policy for each strategy is supported by internal protocols and guidance tailored for each asset class.

There are some high-level commonalities across the asset classes:

## Pre-Investment:

- ◆ For many of our strategies the best opportunity to integrate ESG considerations and exert influence are at the time of the initial investment. As a result, we start by applying the exclusions (as detailed above) at the investment due diligence phase to ensure that we do not make direct investments in companies that we consider to be incompatible with our responsible investment and sustainability principles or where our ESG engagements are not yielding the required outcomes.
- ◆ For all potential investments, we identify whether there are any ESG issues associated with the investment. Each investment team uses a proprietary developed scorecard/checklist to undertake this process. The scorecard/checklist is unique to each asset class/strategy and may use multiple ESG data points and analysis from third parties including both qualitative and quantitative outputs. Each team draws on the expertise of HSBC Asset Management's Responsible Investment team for independent vetting of this ESG integration process.
- ◆ The results of this process are recorded in each investment proposal, so that the relevant Investment Committee for each product can confirm that ESG-related issues have been explicitly assessed and considered when making the investment decision. The minutes of each Investment Committee specifically document the discussions in respect of ESG-related issues and any decisions or mitigating steps taken on the basis of this discussion.

## Post-Investment:

- ◆ Each alternative asset class closely monitors portfolio investments and hold regular reviews in which material risk and return assumptions are updated.
- ◆ The outputs/reviews of the ESG scorecards are reviewed in each asset class' quarterly Investment Oversight Committee, on which the Responsible Investment team, Compliance and Risk have representation.
- ◆ A large part of our responsible investment approach is based on our position as deployers of capital and being active owners of our investments.

## Active Ownership

- ◆ Engagement is a key approach across alternative asset classes. We seek to ensure post- investment that management is taking steps towards achieving ESG goals and we monitor progress over time.
- ◆ Where HSBC Alternatives is investing directly, we aim to engage with management of these underlying assets to ensure that they deliver high levels of corporate responsibility including appropriate disclosures. Where possible we also exercise our influence at the board level of a portfolio company and engage with them on strategy, risk, performance and governance matters.
- ◆ In strategies where HSBC Alternatives invests via third party managers, such as hedge funds we seek to monitor ESG risks and engage as appropriate.

## Accountability and Oversight

For each investment strategy, the Head of that asset class (in conjunction with their respective investment teams) is responsible for integrating ESG considerations into the investment decision-making process. The Head of the asset class is supported by the Head of Responsible Investments – Alternatives, Asset Class Governance Lead, and the wider HSBC Asset Management resources which includes, among other things, a dedicated Responsible Investment team.

Across all of the Alternatives business, the Sustainable Oversight Committee (ASOC) coordinates, plans and approves: policy, process, resourcing and planning activities related to ESG matters within the Alternatives business. The ASOC membership consists of:

- ◆ Alternatives CEO
- ◆ Head of Responsible Investments, Alternatives
- ◆ Head of Alternatives Capabilities/Asset Classes
- ◆ Head of Alternatives Solutions
- ◆ Representatives from AM Sustainability Office
- ◆ Representatives of AM Responsible Investment team
- ◆ Representatives of Alternatives Risk
- ◆ Representatives of Alternatives Compliance

Each asset class also reports on their ESG integration process and portfolio outcomes to their asset class specific Investment Oversight Committee, which includes independent assessment from the Risk and Compliance teams.

Final approval for all policies is overseen by the AM Sustainability Forum comprising our Chief Sustainability Officer (Chair), Chief Executive Officer, Chief Risk Officer and Chief Compliance Officer. The SF reports into our HSBC Asset Management Risk Management Committee.

### Managing conflicts

HSBC Alternatives, as part of HSBC Asset Management, is operationally independent from other HSBC Group companies. We identify and manage any potential conflicts that may arise internally, with clients, and Group companies in responsible investment-related activities with transparency, fairness and consistency. Our primary duty is to our clients' interests.

## Remuneration

Our remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience, while performing their role in the long-term interests of our stakeholders.

Our remuneration policies are consistent with the integration of sustainability risk, including by ensuring that remuneration decisions for investment team members take into account the extent to which ESG risks have been incorporated into the investment-decision process and by setting of specific KPIs for investment team members.

## Transparency Inclusions and Disclosure

We believe transparency and disclosure are an integral part of good governance. We expect good practice in relation to this from the companies in which we invest, because it allows us to make more-informed investment decisions. We believe it is equally important for us to be transparent and to communicate clearly with clients and relevant stakeholders. This includes:

- ◆ Having this separate Responsible Investment policy for Alternatives
- ◆ Reviewing this policy and its implementation regularly, i.e., at least annually, and
- ◆ Providing additional disclosure in line with regulatory requirements (including Article 6 of the SFDR) and the voluntary commitments we have made.



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